Dayton Hudson Corporation Annual Report 1971

Contents

Cover:
Diamond's Thomas Mall store, Phoenix

Highlights

	1971	1970	Increase (Decrease)
Total Revenues	$1,120,756,000	$971,295,000	15.4%
Income Before Income Taxes	$ 45,704,000	$ 37,570,000	21.7%
Net Income	$ 24,654,000	$ 18,970,000	30.0%
Earnings Per Common Share	$ 1.52	$ 1.16	31.0%
Shareholders' Investment	$ 305,830,000	$289,560,000	5.6%
Working Capital	$ 175,686,000	$159,186,000	10.4%
Capital Expenditures	$ 33,279,000	$ 56,794,000	(41.4%)
Total Square Feet of Retail Space	13,972,000	12,585,000	11.0%
Total Square Feet of Leasable Real Estate	8,725,000	8,130,000	7.3%
Average Common Shares Outstanding	16,017,000	16,020,000	(.1%)
Number of Shareholders	8,804	9,428	(6.6%)

To Our Shareholders:

1971 was a landmark year for Dayton Hudson Corporation; our revenues exceeded $1 billion for the first time. Our earnings rebounded from 1970's performance. At the same time, we continued to broaden the base for our diversified approach to the consumer through department stores, low-margin stores, specialty stores and real estate.

The reasons behind these multiple strategies provide the theme for our 1971 Annual Report. Thus, on the pages that follow we describe not only the results of our diversity but also the rationale for it.

Summarizing our 1971 results, revenues totaled a record $1,120,756,000, up 15.4 percent from $971,295,000 in 1970. Net income was $24,654,000, compared with $18,970,000 in 1970. Earnings per share were $1.52, compared with the $1.16 reported a year ago.

The two fastest-expanding segments of the Corporation again displayed the best profit growth. Target led the low-margin group to a 19.7 percent gain in sales and a 40.6 percent increase in pretax earnings. Dayton Hudson Booksellers paced the specialty stores group to a 22.8 percent jump in sales and a 250 percent improvement in pretax earnings.

The improvement in our results reflected both the general improvement in the retail climate during

1971 and the benefit of the expansion program we have pursued the past few years.

We began the year with five consecutive months of accelerating sales improvement and finished with a strong Christmas season. Our retail sales were up 17 percent during December — encouraging evidence that consumer confidence is beginning to recover from the depressed levels of the past two years.

Inflation continued as a major influence on consumer and retailer alike, but again our type of merchandise was not a major contributor to the problem. The average increase in our prices was 2.4 percent, well below the 4.3 percent increase in the consumer price index.

Each of the retail operating groups expanded existing markets or added new ones during 1971. Total retail space grew to 14 million square feet, an increase of 11 percent. The total number of stores reached 159, an increase of 34.

As has been our practice for many years, we utilized 5 percent of taxable income for the improvement of the communities of which we are a part. Expenditures by the Corporation and Dayton Hudson Foundation for this purpose totaled $2,259,000 in 1971. The major portion of this was directed to local cultural institutions and programs designed to solve social problems.

Encouraged by 1971's strong finish, we look forward to continued improvement in the retail environment during 1972. Trends in disposable income, housing starts and consumer confidence indicate stepped-up spending. The outlook is balanced somewhat by the likelihood that unemployment will continue at an unsatisfactory level.

We also expect further intensification of the competition for rising disposable income. But it is this expectation that has helped shape Dayton Hudson's combination of strategies. We believe that the retailers who will compete most successfully will be those best positioned to satisfy the consumer's growing fashion independence, value and quality awareness, practicality and sense of time priorities. Our strategies are aimed at satisfying these consumer demands.

Bruce B. Dayton
Chairman of the Board

K. N. Dayton
President

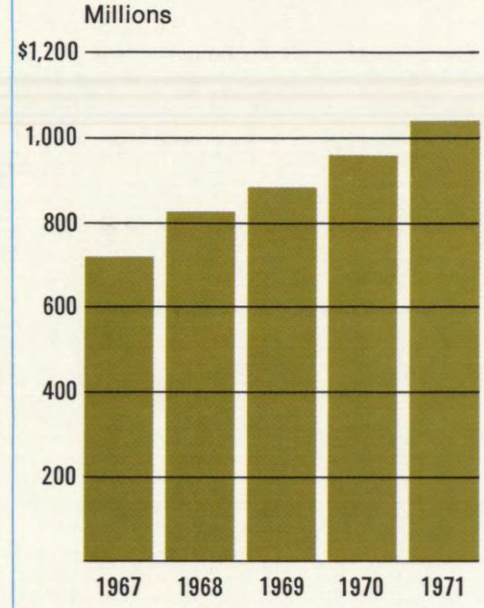
Joseph L. Hudson, Jr.
Vice Chairman of the Board

April 14, 1972

Financial Review

Dayton Hudson Corporation and Subsidiaries

TOTAL REVENUES

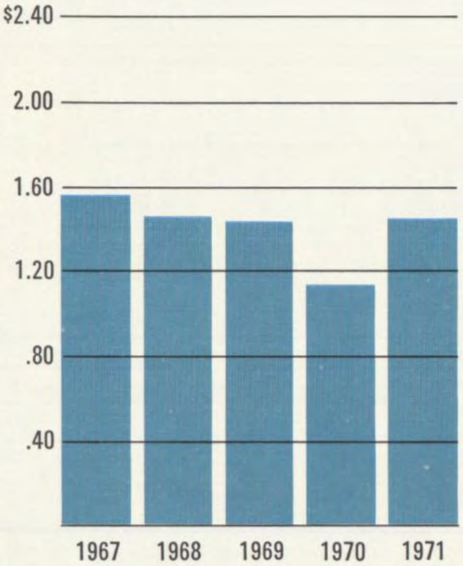


Dayton Hudson revenues increased to $1.1 billion in 1971, an annual increase of 15.4 percent, compared with 9.1 percent in 1970. This growth in revenues resulted from the combination of an improvement in the retail climate and the Corporation's expansion of retail space.

(Millions)	1971	1970	Increase (Decrease)
Net Retail Sales...	$1,086.4	$945.3	14.9%
Rental Income....	24.7	20.1	22.9
Real Estate Sales..	9.7	5.9	64.4
Total Revenues..	$1,120.8	$971.3	15.4%

EARNINGS PER SHARE

Dollars

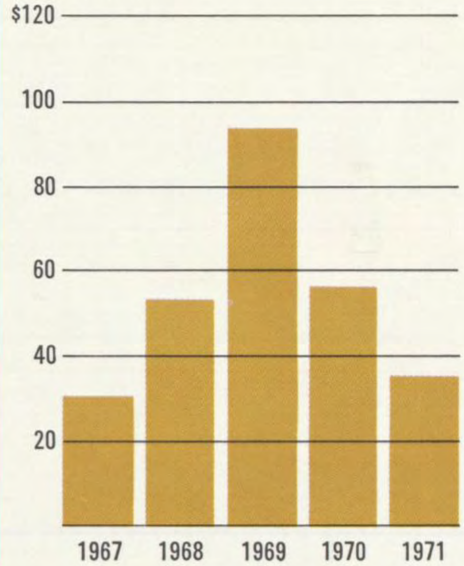


Earnings per common share were $1.52, an increase of 31 percent from 1970's earnings of $1.16. The LIFO adjustment reduced earnings by 5 cents per share, compared with 7 cents per share in 1970.

	1971	1970	Increase
Earnings Per Share......	$1.52	$1.16	31.0%

CAPITAL EXPENDITURES

Millions



The Corporation spent $33.3 million on new plant and equipment in 1971, as compared with $56.8 million in 1970. Capital expenditures in 1971 increased the Corporation's retail space by 11 percent.

(Thousands)	1971	1970	Increase (Decrease)
Retail..........	$28,158	$39,808	(29.3%)
Real Estate......	5,122	16,986	(69.8%)
Total.........	$33,279	$56,794	(41.4%)

SOURCES AND APPLICATIONS OF FUNDS: 1971

SOURCES OF FUNDS:

Net Income............	$24,654
Depreciation of property and equipment........	22,256
New long term debt......	21,721
Disposals of property and equipment........	5,101
Other.................	4,547
Total Sources......	$78,279

APPLICATIONS OF FUNDS:

Additions to property and equipment........	$33,279
Principal payments on long term debt......	17,118
Increase in working capital.............	16,500
Cash dividends..........	8,346
Other.................	3,036
	$78,279

The principal sources of funds in 1971 were net income, depreciation, and secured long-term debt. The major applications of these funds were for additions to property and equipment, principal repayments on long-term debt, increased working capital, and cash dividends paid to shareholders.

Diversity With Direction–

Our Strategy to Serve The Changing Consumer

Dayton's Oval Room, Minneapolis

One of Target's new stores — designed for self-service

The American consumer is changing more rapidly and in more ways than ever before, spinning off new preferences and priorities at an accelerating rate. It's a phenomenon that spells opportunity for the retailer who understands consumer change and can move to meet it.

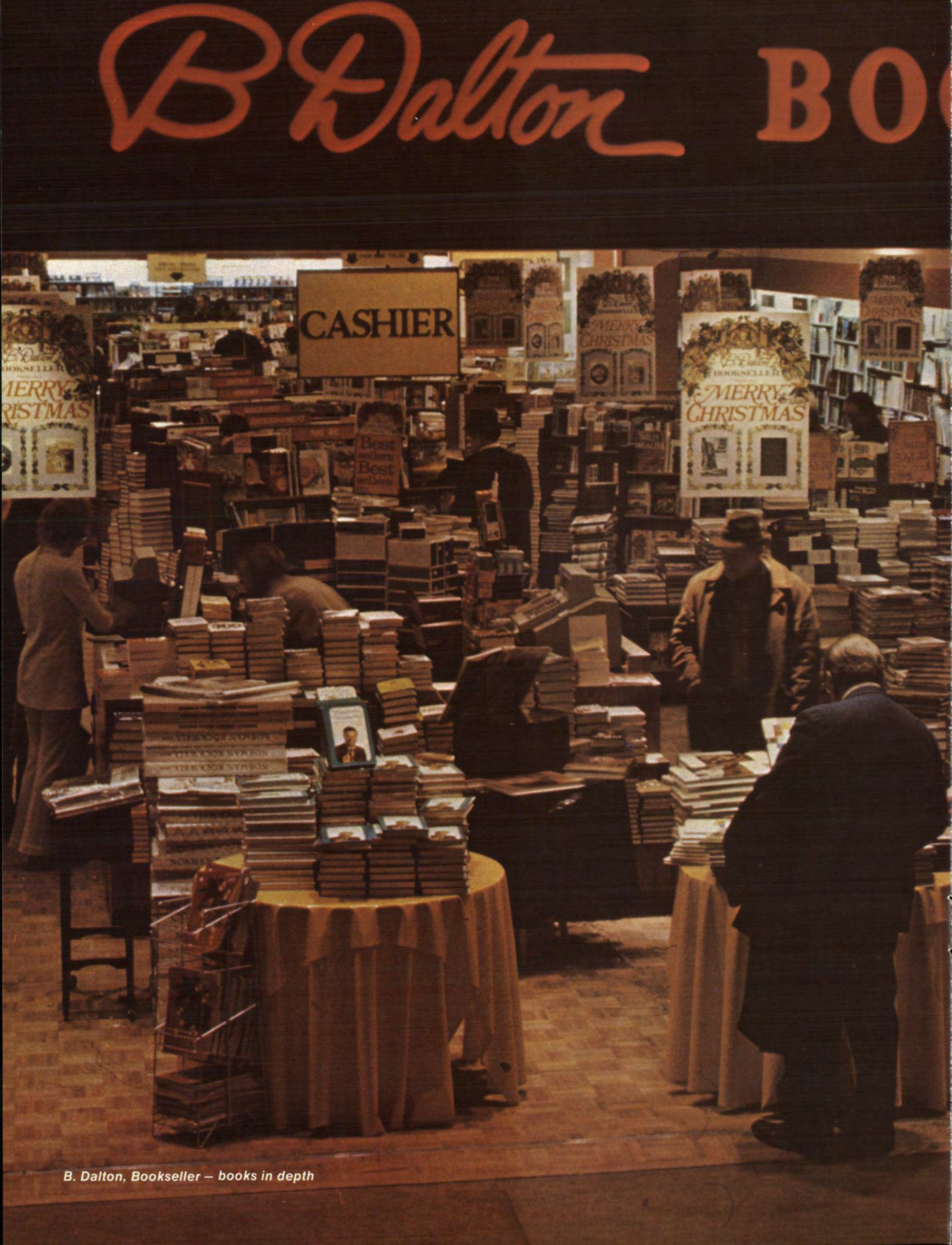
The past year provides abundant evidence of the changeability and complexity of the consumer: Men turned the menswear business upside down with a dramatic demand for knitted slacks, shirts and sportcoats. Women rejected the midi dress and adopted an anything-goes attitude toward skirt lengths. Together, they nearly exhausted the country's supply of bicycles.

But if 1971 was a year of change, it also was a year in which a number of important characteristics and trends became more clearly defined. Among the most significant are:

Fashion Individuality. Men demonstrated conclusively that their once narrow-minded approach to fashion has gone the way of narrow ties and narrow lapels. Women not only began determining skirt lengths for themselves, they accelerated a trend toward individualizing apparel by making it themselves. Sales of over-the-counter fabrics were up substantially, and more than 10,000 customers graduated from sewing classes at Hudson's department stores during the year.

Practicality. Men's knits became extremely popular, partly because of their fashion appeal but perhaps even more because of their comfortable fit and easy care. Knits constituted only a small fraction of menswear sales at the beginning of the year. At year's end, they dominated. "How-to" books on such subjects as gardening, home-maintenance and auto repair were up. Customers mixed their furniture styles, favored earthenware over fine china, stainless steel over sterling silver.

Although retailers learn a great deal by scanning the shelves at the end of the year, our knowledge of the consumer is significantly enhanced by professional research. Today we are investigating not only the usual demographic factors such as age and income, but also attitudes, personalities, life-styles — all the ingredients that go into a decision to buy.



B. Dalton, Bookseller – books in depth

We have learned that the undiscriminating consumer is a disappearing breed. Today's consumer is fashion-conscious, loyal to her budget, sure of her taste. She understands value, knows it is a price-quality relationship that includes durability and fashion appeal. She demands quality products.

But perhaps the single most important sign of the consumer's sophistication is that she is sure of her priorities. She saves time and money when she shops for merchandise in which there is a minimum of ego-involvement — everyday personal needs, for example. On the other hand, she is willing to spend a good deal of time and money in her selection of merchandise that reflects her individual taste, such as home furnishings and fashion clothing.

The consumer's dual objectives of fashion-individuality and budget-watching mean that she may shop at a department or specialty store one day and at a discount store the next. In one setting, she is willing to browse at her leisure and may seek extensive personal attention and services. In the other, she wants to shop quickly, help herself and save on the store's lower overhead.

This duality in the nature of the consumer makes it increasingly clear that no one mass-merchandising strategy will satisfy her.

We believe that we are investing in four of the most effective retail formats to win her over.

Two of them are attuned to the growing demand for fashion independence:

■ Fashion-oriented department stores.

■ Specialty stores.

Two are aimed at her budget consciousness:

■ Conveniently located quality discount stores providing everyday needs and semi-durable merchandise.

■ Low-margin durable-merchandise stores.

Department stores offer a unique collection of customer services and a full range of fashion merchandise.

Specialty stores offer great depth in specialized lines. As the customer continues to express her sense of individuality through her choice of merchandise, she will seek both.

Our **real estate** group, a separate but related growth strategy, brings these two types of operations under one roof. In a modern shopping center setting, the variety of the department stores and the variety-in-depth provided by groups of diverse specialty stores have proved to be natural allies, each benefiting from shopper traffic generated by the other.

Discount stores, such as Target, emphasize self-service, provide a broad selection of merchandise at low prices, feature quick checkout service, convenient location and parking. Target also offers generous business hours seven days a week to accommodate the increasing number of women who are unable to shop during the day because they are working. The stores feature everyday items, such as toothpaste, beauty and health aids, and semi-durables, such as children's clothing. The consumer has demonstrated that she prefers to shop for these things the way she buys groceries, in a one-stop trip. Through leased departments, Target also offers the groceries.

Low-margin durable-merchandise stores, such as Lechmere, also offer broad selections of merchandise at low prices for the growing number of consumers who seek to save on items such as refrigerators, washers and electronics equipment. Here, where the quality-price relationship is the main consideration, few stores can match Lechmere's breadth of selection or its pricing on quality lines.

We are, of course, continuing to seek new areas of retailing opportunity. During 1971, for example, we formed a direct marketing organization as a test entry into non-store retailing. Initially, we hope to explore areas such as direct mail where we can make effective use of ready made lists of charge customers. We are also testing two specialty store strategies, one a series of youth-oriented pants stores, the other a group of cosmetics and accessories stores.

As we look to the future, we are convinced that the discriminating consumer is here to stay, although her preferences for goods and services continue to change.

We welcome this change. We have organized to anticipate it, define it and satisfy its demands.

Rosedale Shopping Center, suburban St. Paul

Operating Review

Informal modeling at Hudson's Northland store

DEPARTMENT STORES

"Department stores offer a unique collection of customer-services and a full range of fashion merchandise . . ."

With its unmatched over-all strength in fashion, selection and service, the department store is still the single most comprehensive approach to the consumer. It is also the biggest drawing card of the regional shopping center.

Not surprisingly, the major portion of our department store growth is taking place through development of these fashion-oriented suburban shopping centers and the resulting expansion of trade areas.

During 1971, each of the five operating companies that make up our department store group completed, began or announced plans for additional shopping-center locations.

Hudson's added its eighth shopping-center location with the July opening of its store in Toledo's new Franklin Park Mall. It has announced plans to open a store in Ann Arbor in 1974 and in Grand Rapids in 1975.

Dayton's, which has outgrown its downtown store in Rochester, Minnesota, is building a 40-percent larger store in that city's largest shopping center, Apache Mall. It is scheduled to open in August 1972. Dayton's also has announced plans for a 100,000-square-foot store in Fargo, North Dakota — the first Dayton's store outside of Minnesota — to open in 1973. Its next Twin Cities-area store is scheduled for a 1974 opening in the proposed Ridgedale Center west of Minneapolis.

Diamond's, which added Las Vegas to its Phoenix base in 1970, opened a store in Tulsa's Utica Square shopping center in 1971.

Lipman's will open a store in Portland's Lloyd Center in 1972, and plans to follow that with its sixth Oregon store in 1973.

John A. Brown Company, which became the newest member of our department store group early in 1971, has announced plans to build its fourth Oklahoma City store. It will be located in the city's Crossroads shopping center, with opening scheduled for 1974.

	1971		1970		
(Millions)	$	% of Total	$	% of Total	Change
Sales	672.4	60.0%	600.7	61.8%	11.9%
Pretax Income	24.3	53.2	24.2	64.3	.4

Stores and Expansion

	End of 1970		New in 1971		End of 1971	
	Stores	Sq. Ft. (000)	Stores	Sq. Ft. (000)	Stores	Sq. Ft. (000)
Hudson's	12	5,083	(1)	17	11	5,100
Dayton's	6	2,565	—	28	6	2,593
Diamond's	4	534	1	72	5	606
Lipman's	4	456	—	—	4	456
John A. Brown	—	—	4	481	4	481
Total	26	8,638	4	598	30	9,236

Lechmere – an innovator in appliance merchandising

"Aimed at the consumer's budget consciousness . . . Target and Lechmere . . ."

The low-margin stores group is our major growth area — a double-edged approach to the consumer's heightened price-quality awareness and our strongest route into new markets.

Target is a national discount strategy, expanding from a base of initial development in the nation's central corridor.

Lechmere is expanding its low-margin hardgoods operation in New England.

Target opened a total of six stores in five markets in 1971. Three of the openings were in existing Target markets: Dallas, St. Louis and the Twin Cities. Target's main thrust thus far has been into major metropolitan areas such as these.

Three other Target stores were opened in 1971 in the smaller markets of Des Moines, Iowa, and Fort Collins, Colorado. The initial sales and profits of these stores have exceeded our projections. This move into smaller markets was based on our success in Colorado Springs and Tulsa, supported by market research elsewhere.

At year's end, Target had 30 stores in 11 markets. For 1972, Target plans 16 additional openings. Three will be conventional stores in major markets and the remainder will be leased stores in markets of various sizes.

Lechmere expanded beyond the Boston area to Springfield, Massachusetts, during 1971. The Springfield store is Lechmere's fourth, following the third store by just one year.

	1971		1970		
(Millions)	$	% of Total	$	% of Total	Change
Sales	345.8	30.8%	289.0	29.8%	19.7
Pretax Income	14.2	31.0	10.1	26.9	40.6

Stores and Expansion

	End of 1970		New in 1971		End of 1971	
	Stores	Sq. Ft. (000)	Stores	Sq. Ft. (000)	Stores	Sq. Ft. (000)
Target	24	2,890	6	559	30	3,449
Lechmere	3	626	1	145	4	771
Total	27	3,516	7	704	34	4,220


STEREO

SPECIALTY STORES

"Specialty stores offer great depth in specialized lines . . ."

The individualized approaches of our specialty stores give us an effective way of applying our fashion know-how and organizational strength across a broadening spectrum of consumer preferences.

These strategies are in-depth answers to the consumer who seeks to express her personality and individuality through her choice of jewelry or gifts, for example, or the books she reads. They are a response to a more self-assured consumer who is less tied to tradition, more receptive to innovation in both merchandise and merchandising.

The popularity of specialty stores has grown in proportion to the consumer's desire for individual expression. As demonstrated by our specialty stores group, this is a significant growth area for retailers who can apply professional management to multiple-unit operations.

Dayton Hudson Booksellers continued to expand profitably in 1971, opening 15 new stores. That increased its total to 56 — more than twice as many as it was operating at the beginning of 1969. Booksellers now serves 49 communities in 15 states.

Dayton Hudson Jewelers, now centralizing many functions to achieve economies of scale, opened four stores during 1971. That increased its total to 34 stores, serving 32 communities in nine states.

Team Central raised its total of consumer-electronics stores to 75 during 1971, an increase of 17. Of the total, five are company-owned, the rest franchised or partially owned.

	1971		1970		
(Millions)	$	% of Total	$	% of Total	Change
Sales	68.3	6.1%	55.6	5.7%	22.8%
Pretax Income	1.4	3.0	.4	1.1	250.0

Stores and Expansion

	End of 1970		New in 1971		End of 1971	
	Stores	Sq. Ft. (000)	Stores	Sq. Ft. (000)	Stores	Sq. Ft. (000)
Dayton Hudson Jewelers	31	216	3	19	34	235
Dayton Hudson Booksellers	41	215	15	51	56	266
Team*	—	—	5	15	5	15
Total	72	431	23	85	95	516

*Includes only 100% owned stores

REAL ESTATE

". . . a separate but related growth strategy . . ."

Dayton Hudson Properties is another facet of our approach to the consumer.

It owns and operates eight regional shopping centers and also has the property for more. By developing both the centers and the commercial and residential property around them, it has been able to enhance the economic environment of the retail operations. In all, it owns and operates 8.7 million square feet of commercial space, 4.4 million of which is leased to other tenants.

Dayton Hudson Properties is also able to sell developed property as a regular part of its operations, while maintaining an inventory of land through the purchase of additional undeveloped property. The aggregate investment in real estate at the end of 1971 was $218 million, with a market value estimated to be significantly greater than that amount.

The real estate strategy is highly compatible with retailing, since it not only provides suitable space for the expansion of our retail operations, it also generates cash flow that helps make the expansion possible.

The thrust of Dayton Hudson Properties is to realize maximum cash flow, the primary measure of its performance. For 1971, the net cash flow was 80 cents per share, compared with a net income contribution of 21 cents per share.

Developments during the past year:

■ Completion of North Park Place, two 14-story apartment buildings containing a total of 260 apartments on the Northland Center periphery in Detroit. Dayton Hudson Properties is a 50-percent owner.

■ Start of construction of a 14-story office building containing 235,000 square feet, near Northland.

■ Start of construction of a third wing for the Southdale Medical Center in suburban Minneapolis.

A one-third expansion of Southdale Shopping Center was completed early in 1972, increasing its space to more than 1.3 million square feet. The expansion includes a J. C. Penney department store and 38 smaller stores.

Work will begin in 1972 on major expansions of both Northland and Eastland in Detroit.

Construction of Ridgedale shopping center in Minnetonka, west of Minneapolis, will begin in 1972, with completion scheduled for 1974. The center will have four department stores and about 1 million square feet of retail space.

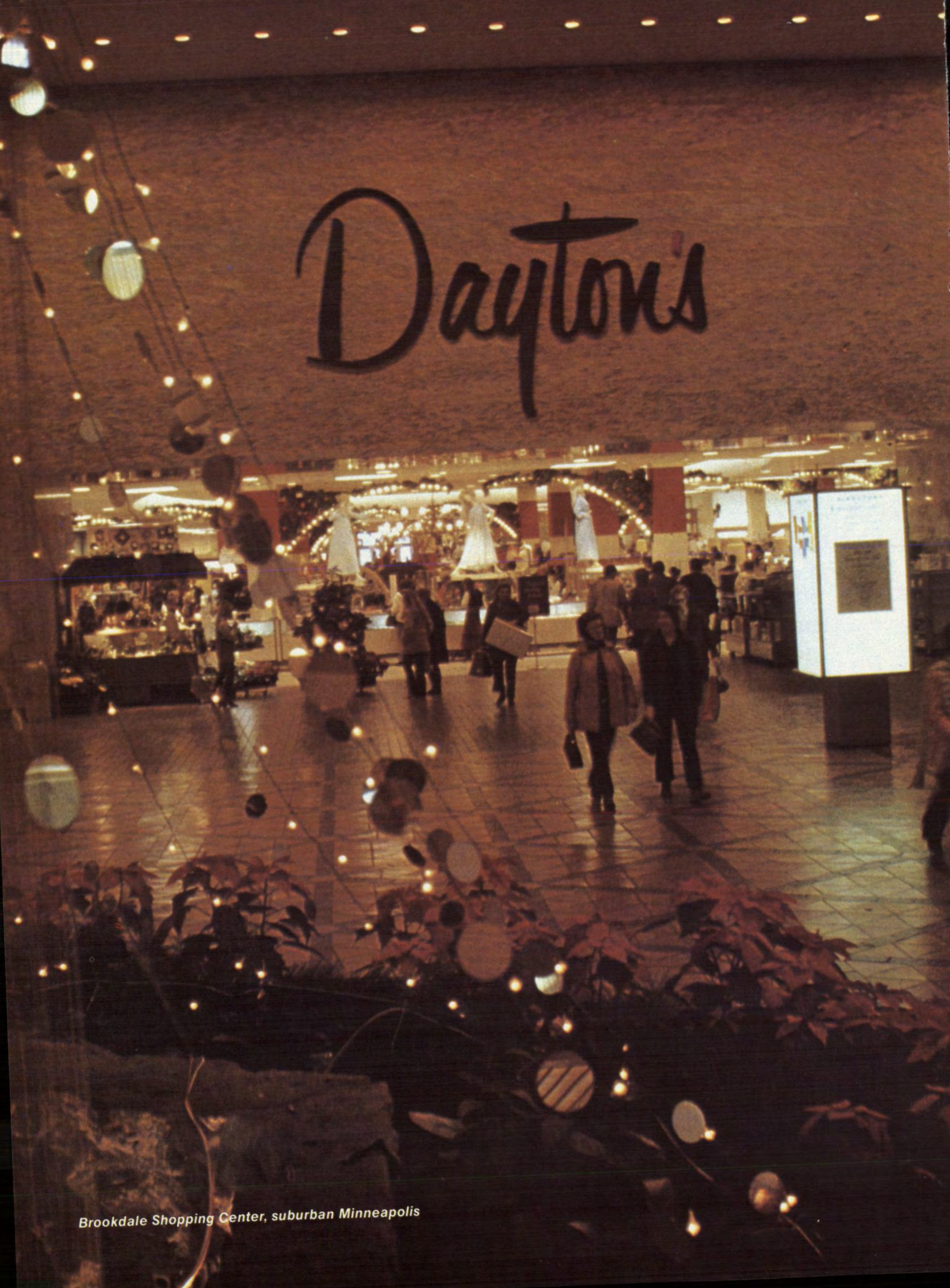
	1971	1970	
(millions)	$	$	Change
Pretax Income	5.8	2.9	100.0%
Net Income	3.4	1.5	126.7
Non-Cash Charges	9.4	7.2	30.6%
Cash Flow	12.8	8.7	47.1

Space and Expansion

	End of 1970 Space*	New in 1971 Space*	End of 1971 Space*
Shopping Centers			
Leased to Outside Tenants	2,665	67	2,732
Intercompany	2,765	393	3,158
Total	5,430	460	5,890
Commercial Buildings			
Leased to Outside Tenants	1,528	103	1,631
Intercompany	1,172	32	1,204
Total	2,700	135	2,835

*Gross leasable square feet, in thousands.

Northland Center, Detroit



Brookdale Shopping Center, suburban Minneapolis

Statement of Income

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars)	Fiscal Year 1971 Year Ended January 29, 1972	Fiscal Year 1970 Year Ended January 30, 1971
REVENUES		
Net retail sales, including sales of leased departments and carrying charges	$1,086,425	$945,306
Real estate sales — Note A	9,641	5,897
Rental income	24,690	20,092
	1,120,756	971,295
COSTS AND EXPENSES — Note A		
Cost of retail sales, buying and occupancy costs	789,816	684,630
Cost of real estate sales	4,594	2,008
Selling, publicity and administrative expenses	200,633	174,790
Depreciation of property and equipment	22,256	19,688
Rentals of real property	9,498	8,260
Interest expense	18,000	17,524
Taxes other than income taxes	30,255	26,825
	1,075,052	933,725
INCOME BEFORE INCOME TAXES	45,704	37,570
INCOME TAXES — Notes A and F		
Current	14,482	14,323
Deferred	6,568	4,277
	21,050	18,600
NET INCOME	$ 24,654	$ 18,970
EARNINGS PER COMMON SHARE	$ 1.52	$ 1.16

Earnings per Common Share are based on net income less dividends on Preferred Stock and are computed on the weighted average number of shares outstanding during each year.

See notes to financial statements.

Statement of Financial Position

Dayton Hudson Corporation and Subsidiaries

ASSETS

(Thousands of Dollars)	End of Fiscal Year 1971 January 29, 1972
CURRENT ASSETS	
Cash	$ 25,525
Accounts receivable — Note A:	
Thirty day accounts	6,913
Deferred payment accounts	144,087
Other accounts	14,764
	165,764
Less allowance for losses	2,903
	162,861
Merchandise inventories — Note A	181,935
Supplies and prepaid expenses	3,442
TOTAL CURRENT ASSETS	373,763
INVESTMENTS AND OTHER ASSETS	19,971
PROPERTY AND EQUIPMENT — Notes A, B, C and E	
Retail Companies	299,448
Less allowances for depreciation	107,967
	191,481
Real Estate Companies	218,145
Less allowances for depreciation	55,154
	162,991
	354,472
	$748,206

End of Fiscal Year 1970
January 30, 1971
$ 25,958
17,313
111,479
13,744
142,536
2,333
140,203
155,902
2,925
324,988
18,249
265,016
83,903
181,113
215,764
48,757
167,007
348,120
$691,357

LIABILITIES

	End of Fiscal Year 1971	End of Fiscal Year 1970
	January 29, 1972	January 30, 1971
CURRENT LIABILITIES		
Notes payable	$ 31,750	$ 27,900
Accounts payable	69,735	52,469
Taxes other than income taxes	27,616	24,820
Accrued liabilities	23,218	20,356
Income taxes, currently payable	14,253	13,690
Deferred income taxes — installment sales	18,595	15,769
Long-term debt due within one year	12,910	10,798
TOTAL CURRENT LIABILITIES	198,077	165,802
LONG-TERM DEBT — Note C		
Retail Companies	102,217	90,724
Real Estate Companies	125,021	131,911
	227,238	222,635
DEFERRED CREDITS — principally income taxes	17,061	13,360
SHAREHOLDERS' INVESTMENT — see separate statement		
Preferred Stock	622	622
Common Stock	16,015	16,018
Additional paid-in capital	39,302	39,309
Retained earnings	249,891	233,611
	305,830	289,560
	$748,206	$691,357

See notes to financial statements.

Statement of Changes in Financial Position

Dayton Hudson Corporation
and Subsidiaries

(Thousands of Dollars)	Fiscal Year 1971 Year Ended January 29, 1972	Fiscal Year 1970 Year Ended January 30, 1971
FUNDS PROVIDED BY		
Operations:		
Net income for the year	$24,654	$18,970
Expenses not requiring the outlay of working capital:		
Depreciation of property and equipment	22,256	19,688
Increase in non-current deferred income taxes	3,742	2,130
Other prepaid and deferred items	805	668
	51,457	41,456
Working capital of pooled companies at beginning of year — Note F	—	4,435
Disposals of property and equipment	5,101	2,920
Sinking fund debentures	—	25,000
Other new long-term debt	21,721	19,087
Other	—	359
	$78,279	$93,257
FUNDS USED FOR		
Cash dividends	$ 8,346	$ 8,166
Additions to property and equipment	33,279	56,794
Principal payments on long-term debt	17,118	16,419
Other	3,036	1,506
Increase in working capital	16,500	10,372
	$78,279	$93,257
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Increases (decreases) in current assets:		
Cash	($ 433)	$ 2,971
Accounts receivable	22,658	7,958
Merchandise inventories	26,033	18,708
Supplies and prepaid expenses	517	594
	48,775	30,231
Increases (decreases) in current liabilities:		
Notes payable	3,850	11,450
Accounts payable	17,266	1,714
Accrued expenses and other	7,770	2,888
Income taxes, currently payable	3,389	3,807
	32,275	19,859
NET INCREASE	$16,500	$10,372

See notes to financial statements.

Statement of Shareholders' Investment

Dayton Hudson Corporation and Subsidiaries

(Thousands of Dollars)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings
Balance January 31, 1970	$352	$15,805	$34,731	$218,815
Net income				18,970
Cash dividends:				
On Common Stock ($.50 a share)				(7,932)
On Preferred Stock				(234)
Stock issued for pooled companies	270	219	891	4,050
Excess of fair market value over the issuance cost of shares issued under inactive Key Executive Restricted Stock Plan			3,043	
From revaluation of capital stock of a subsidiary contributed to Retirement Plan in prior years and other			644	(12)
Common Stock purchased for treasury		(6)		(46)
Balance January 30, 1971	622	16,018	39,309	233,611
Net income				24,654
Cash dividends:				
On Common Stock ($.50 a share)				(8,008)
On Preferred Stock				(338)
Common Stock purchased for treasury		(3)		(28)
Other			(7)	
Balance January 29, 1972 — Notes C and D	$622	$16,015	$39,302	$249,891

Preferred Stock — Authorized 200,000 shares voting without par value, issuable in series; outstanding at January 29, 1972 and January 30, 1971, 35,175 shares of $5 Convertible Preferred Stock (liquidation value of $3.5 million), and 27,000 shares of $6 Convertible Preferred Stock (liquidation value of $2.7 million); convertible into Common Stock at 2⅔ shares for each share of Preferred Stock.

Common Stock — Authorized 20,000,000 shares par value $1 a share; outstanding at January 29, 1972 consists of 16,081,118 issued shares less 65,977 shares in treasury; and at January 30, 1971, 16,081,118 issued shares less 63,290 shares in treasury.

See notes to financial statements.

Statement of Financial and Accounting Policies

Dayton Hudson Corporation and Subsidiaries

(This summary is presented to assist the reader in evaluating the financial statements and other data in this report.)

FINANCIAL POLICIES

It is Dayton Hudson's policy to have a strong, conservative capital structure. This structure is required to balance an aggressive expansion program, maintain flexibility as to sources of funds, and minimize the cost of such funds. A primary financial objective of the Corporation is to qualify at all times for an "A" rating on senior long-term debt. This rating is seen as a reflection of successful achievement of the desired financial strength.

Retail expansion plans will be financed primarily through cash flow generated within the Company and through long-term unsecured debentures sold to the public. The eventual goal for retail operations is an even balance between the use of debt, including capitalized lease obligations, and equity. A satisfactory earnings coverage of fixed charges is a primary condition to the achievement of this goal.

The real estate group obtains external long-term financing through mortgage debt, commitments for which are obtained prior to the beginning of construction. Real estate operations are expected to be more heavily leveraged than retail activities, since the mortgage debt is largely supported by the credit of tenants.

For short-term funds, Dayton Hudson relies upon unsecured bank borrowings and upon the sale of commercial paper supported by open bank lines. Sixteen major banks provide credit facilities in excess of $140 million. Of this amount, $40 million is in the form of a revolving credit and term loan agreement having a final maturity of December 31, 1977. Corporate policy requires that unused funding capacity be maintained at a level sufficient to cover peak seasonal working capital needs and the unexpended portion of committed capital additions.

ACCOUNTING POLICIES

Dayton Hudson Corporation follows generally conservative accounting policies, which include using the LIFO method of inventory valuation, depreciating fixed assets over the shortest allowable asset lives, and expensing start-up costs (interest and taxes during construction, pre-opening payroll) as they are incurred. The description of these and other specific accounting policies follow.

Consolidation

The financial statements include the accounts of Dayton Hudson Corporation and subsidiaries, substantially all of which are wholly owned. All material intercompany accounts and transactions are eliminated in the consolidated statements. The joint ventures of the real estate subsidiaries are accounted for on an equity basis.

Revenues

Retail sales and rental income are recorded on the accrual basis. Profits on installment sales are taken up in full for

accounting purposes when the sales are recorded. For income tax purposes, however, the installment method of reporting profit on installment sales is used, and the related deferred income taxes are recorded and classified as a current liability.

Gains from real estate sales are recorded on the accrual basis for reporting purposes, but on the installment method for income tax purposes whenever possible. The related deferred income taxes are recorded and classified as "deferred credits" in the Statement of Financial Position.

Costs, Expenses and Related Statement of Financial Position Accounts

Inventory and related cost of sales are accounted for basically by the retail inventory method. Substantially all inventories (approximately 1971 — 90%, 1970 — 85% at year end) are recorded at cost on the last-in, first-out (LIFO) method. The LIFO inventory method generally results in stating inventory at amounts which are less than the amount which would have been determined by using the first-in, first-out (FIFO) costing method during a period of rising prices. Correspondingly, under the LIFO method during inflationary periods, cost of sales is higher and, therefore, profits are lower than if FIFO costing principles had been used. Inventories in the respective years are stated $8.6 million and $7.1 million less than the amount which would have been determined under the retail method without regard to last-in, first-out principles. The remaining inventories are stated at the lower of cost (first-in, first-out) or market.

The depreciation provision and the related allowances for depreciation are computed by the straight line method for reporting purposes. For income tax purposes, however, accelerated methods are used and the related deferred income taxes are included in "deferred credits" on the Statement of Financial Position. The following estimated lives are used in computing depreciation: buildings — 20 to 50 years; leaseholds and leasehold improvements — life of lease; and fixtures and equipment — 3 to 20 years. Leasing expenses and allowances to tenants for leasehold improvements are amortized over the life of the leases.

Expenses incurred in obtaining long-term debt are amortized over the period of the debt.

Start-up costs of new stores, which include interest expense and real estate tax during construction as well as pre-opening expenses, are expensed as incurred. Similarly, interest expense and real estate taxes are expensed as incurred for land held for future development and/or sale. New buildings and major renovation of older buildings are capitalized and amortized over the useful life.

With few exceptions, retail customer accounts receivable are written off in full when any portion of the unpaid balance is past due twelve months. The allowance for losses arising from uncollectible customer accounts receivable is based on historical bad debt experience and an evaluation of periodic aging of the accounts.

The Corporation and its subsidiaries have several retirement plans covering substantially all employees. The Corporation's policy is to fund retirement costs accrued to date. The contributions to the plans for fiscal 1971 and fiscal 1970 were $4.4 million and $3.5 million, respectively. The actuarially computed value of vested benefits of one plan exceeds the total of the accruals and the total of the pension fund assets by $4.0 million; in the aggregate the total of the accruals and the total of the pension fund assets exceed the actuarially computed value of the vested benefits of all plans. Additionally, the Corporation has a Savings and Stock Purchase Plan which is made available to substantially all employees who meet the eligibility requirements (primarily based on age and length of service). Under this plan, the Corporation contributes 50¢ for each dollar deposited by the employee. Vesting commences after participating in the plan for three years and the employee is fully vested after ten years.

Other expenses, for example, rents, interest, real and personal property taxes and vacations are recorded and reported on the accrual basis.

Income Taxes

The Corporation and its subsidiaries file a consolidated Federal income tax return annually. The investment credit is recorded on the flow through method, thereby reducing the income tax provision in the year in which the credit is available to offset income taxes payable. The provision for deferred income taxes arises principally from using the installment method for reporting installment sales for income tax purposes and from the use of accelerated depreciation for income tax purposes.

Reclassification of Accounts

The Company previously included in revenues the gain realized from the sale of real estate. In the current year it adopted the policy of reporting real estate sales gross and of including cost of real estate sales in costs and expenses. The prior year has been restated to conform. Certain account classifications of the prior year have been reclassified to conform to the current year classifications, including costs and expenses.

During the year ended January 29, 1972 a major department store division changed the terms of its thirty day accounts to deferred payment accounts. The January 29, 1972 balances of the accounts on which credit terms were changed are $10.2 million.

Notes to Financial Statements

Dayton Hudson Corporation and Subsidiaries

January 29, 1972 and January 30, 1971

Note A — ACCOUNTING POLICIES

See "Accounting Policies" in "Statements of Financial and Accounting Policies."

Note B — PROPERTY AND EQUIPMENT — on the basis of cost

	January 29, 1972	January 30, 1971
	(Thousands of Dollars)	
Land and improvements	$ 81,393	$ 79,251
Buildings and improvements	333,448	306,118
Fixtures and equipment	96,705	85,558
Construction in progress	6,047	9,853
	$517,593	$480,780
Less allowances for depreciation	163,121	132,660
	$354,472	$348,120

Note C — LONG-TERM DEBT —due beyond one year

	January 29, 1972	January 30, 1971
	(Thousands of Dollars)	
Sinking Fund Debentures	$ 50,000	$ 50,000
Notes Under Credit Agreement	29,000	13,000
5⅜% Sinking Fund Notes — payable $800,000 annually to 1982	8,800	9,600
6% Sinking Fund Notes and other unsecured notes — maturing at various dates to 1985 and bearing interest at from 3¾% to 7½%	2,153	7,343
Mortgage notes, notes and contracts for purchase of real estate — payable over periods ranging to 30 years from inception and bearing interest at from 4% to 9¼%	137,285	142,692
	$227,238	$222,635

The 7¾% and 9¾% Sinking Fund Debentures, each for $25 million, under indentures dated 1969 and 1970, due in 1994 and 1995, respectively, are redeemable through minimum annual sinking fund payments of $1.25 million commencing in 1975 and 1976, respectively.

The notes under the Credit Agreement bear interest at the prime rate and are payable on December 31, 1973. The maximum amount available under the Agreement is $40 million and the Corporation has the option at any time prior to maturity to convert the balance to a term loan at ½% above prime and payable in 16 equal quarterly installments with final maturity at December 31, 1977. In February 1972, $24 million owing at year-end under the Credit Agreement was refinanced by $24 million of short-term commercial paper.

The 7¾% and 9¾% Sinking Fund Debentures, the Credit Agreement notes and the 5⅜% and 6% Sinking Fund notes

each contain varying provisions and restrictions for the protection of the lenders relating to working capital, sale of receivables, dividends and other restricted payments and other restrictive covenants. Under the most restrictive of these provisions $59.1 million at January 29, 1972 and $46.7 million at January 30, 1971 of retained earnings were available for dividends and other restricted payments.

The net carrying amount of land, buildings and equipment of three real estate companies and four retail companies pledged as collateral to mortgage notes aggregated $172 million.

Note D — STOCK OPTIONS

Under the Corporation's Qualified Stock Option Plan, 200,000 shares of Common Stock were originally reserved for grants to employees at not less than market value. The options are exercisable 25% per year cumulatively in each of the second through fifth years after grant. Options for the purchase of 111,250 and 115,700 shares were outstanding at January 29, 1972 and January 30, 1971, respectively, at prices ranging from $24.69 to $39.00 per share. A maximum of 53,000 additional shares will be granted under the present plan. Options for 8,900 and 3,200 shares were cancelled during the respective years. Options for 50 shares at $24.69 were exercised in fiscal 1971. No options were exercised in fiscal 1970.

Options for 26,688 shares at prices ranging from $24.69 to $39.00 a share and 24,450 shares at $33.75 to $39.00 a share became exercisable during fiscal 1971 and fiscal 1970, respectively.

On March 1, 1972 the Board of Directors adopted, subject to approval of the Pay Board and of shareholders, a new stock option plan. The plan provides for the granting of qualified stock options, non-qualified options and stock appreciation rights. 400,000 shares will be reserved for issuance under the new plan.

Note E — COMMITMENTS

The minimum annual rentals of long-term leases, generally not exceeding 30 years from inception, of the Corporation and subsidiaries were $6.9 million and $5.6 million at January 29, 1972 and January 30, 1971, respectively, net of $7.3 million and $7.2 million payable to real estate subsidiaries. Most of the leases require additional payments for real estate taxes, insurance, other expenses and rentals based on percentages of sales. Minimum annual rental income from space leased to a supermarket chain was $1.4 million and $1.3 million in the respective years.

The Corporation has entered into a 15-year lease for office space commencing in 1972. Rentals thereunder are $1.3 million for three years and $1.6 million thereafter.

Commitments for construction of new facilities and the purchase of real estate amounted to approximately $16.5 million and $19.0 million at January 29, 1972 and January 30, 1971, respectively.

Note F — MISCELLANEOUS MATTERS

The John A. Brown Company, a department store, was purchased for cash in February 1971. The operating results of the company have been included in the accompanying financial statements since the date of acquisition.

During the year ended January 30, 1971, three companies were acquired in transactions accounted for as poolings of interests. The financial statements for prior years were not restated.

As first reported in 1969, the Federal Trade Commission is currently studying the merger of the Dayton Corporation and the J. L. Hudson Company. The Corporation does not know what action the Commission may take, or what effect any such action may have on the merger or other aspects of the Corporation's business.

The effective tax rate for the current year is lower than for the prior year due to a variety of factors, including the elimination of the surcharge, the higher investment credit and the donation of materially appreciated assets to charitable organizations.

Accountants' Report

Board of Directors and Shareholders
Dayton Hudson Corporation
Minneapolis, Minnesota

We have examined the statements of financial position of Dayton Hudson Corporation and subsidiaries as of January 29, 1972 and January 30, 1971 and the related statements of income, shareholders' investment and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statements of financial position and statements of income, shareholders' investment and changes in financial position present fairly the financial position of Dayton Hudson Corporation and subsidiaries at January 29, 1972 and January 30, 1971 and the results of their operations, changes in shareholders' investment and changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

Ernst & Ernst

Minneapolis, Minnesota
March 17, 1972

Ten Year Comparisons

Dayton Hudson Corporation
and Subsidiaries

	1971	1970	1969
TOTAL REVENUES (millions)	$1,120.8	$971.3	$890.2
INCOME BEFORE INCOME TAXES (millions)	45.7	37.6	48.1
NET INCOME (millions)	24.7	19.0	23.7
PER SHARE OF COMMON STOCK			
Net income	1.52	1.16	1.49
Book value	18.70	17.69	16.84
CASH DIVIDENDS PER SHARE OF COMMON STOCK			
Cash dividends on a historical basis after giving retroactive effect to stock splits	.50	.50	.50
CAPITAL EXPENDITURES AND DEPRECIATION (millions)			
Capital expenditures	33.3	56.8	92.8
Depreciation and amortization	22.3	19.7	16.2
YEAR END FINANCIAL POSITION (millions)			
Working capital	175.7	159.2	148.8
Property and equipment, net of depreciation:			
Retail companies	191.5	181.1	155.0
Real estate companies	163.0	167.0	157.5
Total	354.5	348.1	312.5
Long-term debt:			
Retail companies	102.2	90.7	78.0
Real estate companies	125.0	131.9	115.7
Total	227.2	222.6	193.7
Shareholders' equity	305.8	289.6	269.7
Return on beginning shareholders' equity	8.6%	7.0%	9.3%
AVERAGE COMMON SHARES OUTSTANDING (thousands)	16,017	16,020	15,814

1968	1967	1966	1965	1964	1963	1962
$813.4	$728.4	$666.3	$602.7	$531.2	$476.0	$435.2
51.0	46.6	44.6	46.0	37.1	25.3	22.6
24.6	24.6	23.9	23.9	19.3	12.9	10.4
1.54	1.58	1.58	1.54	1.23	.79	.62
15.94	14.86	13.47	11.89	10.36	9.14	8.46
.40	.16	.07	.01	—	—	—
52.9	32.5	29.3	23.8	21.2	16.6	15.9
14.0	13.0	12.3	11.0	10.1	9.6	8.7
135.0	134.8	126.7	118.7	92.8	91.2	87.9
121.0	94.5	85.9	74.5	72.6	68.5	60.7
117.7	107.6	103.4	99.3	89.6	83.4	81.4
238.7	202.1	189.3	173.8	162.2	151.9	142.1
48.5	28.9	33.7	27.4	28.3	30.2	32.9
70.3	69.4	70.6	70.5	52.7	54.7	53.1
118.8	98.3	104.3	97.9	81.0	84.9	86.0
255.8	237.7	211.5	193.5	173.0	155.4	145.5
10.3%	11.6%	12.4%	13.8%	12.4%	8.9%	8.1%
15,850	15,262	14,582	14,894	14,875	14,934	15,133

Ten Year Comparisons (Continued)

Dayton Hudson Corporation
and Subsidiaries

	1971	1970	1969
DEPARTMENT STORES			
Number of stores	30	26	23
Total square feet (thousands)	9,236	8,638	8,003
Sales (millions)	$ 672.4	$ 600.7	$ 607.7
Sales per square foot	72.80	69.54	75.93
Income before income taxes (millions)	24.3	24.2	34.5
Pre-tax return on sales	3.6%	4.0%	5.7%
LOW MARGIN STORES			
Number of stores	34	27	19
Total square feet (thousands) (A)	4,220	3,516	2,390
Sales (millions)	$ 345.8	$ 289.0	$ 233.5
Sales per square foot	81.94	82.18	97.70
Income before income taxes (millions)	14.2	10.1	9.1
Pre-tax return on sales	4.1%	3.5%	3.9%
SPECIALTY STORES			
Number of stores (B)	95	72	52
Total square feet (thousands) (B)	516	431	313
Sales (millions)	$ 68.3	$ 55.6	$ 27.1
Sales per square foot (B)	98.56	95.59	86.58
Income before income taxes (millions)	1.4	.4	.2
Pre-tax return on sales	2.0%	.7%	.7%
TOTAL RETAIL			
Number of stores (B)	159	125	94
Total square feet (thousands) (A) (B)	13,972	12,585	10,706
Sales (millions)	$1,086.4	$ 945.3	$ 868.3
Sales per square foot (B)	76.51	73.96	81.10
Income before income taxes (millions)	39.9	34.7	43.8
Pre-tax return on sales	3.7%	3.7%	5.0%
REAL ESTATE OPERATIONS			
Number of shopping centers	8	8	6
Gross leasable square feet (thousands) (C):			
Intercompany	4,362	3,937	2,986
Other	4,363	4,193	3,362
Rental income (millions):			
Intercompany	$ 16.1	$ 13.3	$ 10.9
Other	24.7	20.1	15.3
Real estate sales (millions)	9.7	5.9	6.6
Income before income taxes (millions)	5.8	2.9	4.3
Cash flow (millions) (D)	12.8	8.7	8.7

1968	1967	1966	1965	1964	1963	1962
21	20	20	19	18	18	16
7,675	7,255	7,010	6,816	6,462	6,458	6,047
$ 583.0	$ 554.0	$ 529.4	$ 501.5	$ 457.0	$ 415.4	$ 391.6
75.96	76.36	75.52	73.58	70.72	64.32	64.76
36.0	35.1	36.9	38.3	32.1	21.9	20.6
6.2%	6.3%	7.0%	7.6%	7.0%	5.3%	5.3%
13	11	9	7	5	5	5
1,577	1,330	1,083	799	528	528	448
$ 189.5	$ 141.8	$ 108.7	$ 75.9	$ 53.4	$ 42.9	$ 27.2
120.16	106.62	100.37	94.99	101.14	81.25	60.71
10.3	8.5	5.0	4.8	2.5	1.2	.1
5.4%	6.0%	4.6%	6.3%	4.7%	2.8%	.4%
39	27	15	11	10	8	7
250	186	125	106	102	78	71
$ 22.8	$ 18.3	$ 15.2	$ 13.7	$ 11.6	$ 9.5	$ 8.8
91.24	98.10	120.35	128.48	113.20	121.79	123.94
.9	1.2	1.0	1.4	.7	.6	.6
3.9%	6.6%	6.6%	10.2%	6.0%	6.3%	6.8%
73	58	44	37	33	31	28
9,502	8,771	8,218	7,721	7,092	7,064	6,566
$ 795.3	$ 714.1	$ 653.3	$ 591.1	$ 522.0	$ 467.8	$ 427.6
83.70	81.42	79.50	76.56	73.60	66.22	65.12
47.2	44.8	42.9	44.5	35.3	23.7	21.3
5.9%	6.3%	6.6%	7.5%	6.8%	5.1%	5.0%
5	5	5	5	4	4	4
1,997	1,949	1,949	1,743	1,388	1,385	1,315
2,706	2,777	2,687	2,541	2,165	2,144	2,053
$ 9.2	$ 8.6	$ 7.9	$ 7.1	$ 6.1	$ 4.3	$ 4.1
13.3	12.1	11.2	9.7	8.4	7.8	7.4
4.8	2.2	1.8	1.9	.8	.4	.2
3.8	1.8	1.7	1.5	1.8	1.6	1.3
6.9	5.8	5.3	4.5	4.3	4.1	3.9

(A) Total square feet excludes supermarket space leased to others (approximately 751,000 square feet at January 29, 1972).

(B) Excludes franchised and partially owned Team stores.

(C) Gross leasable square feet includes shopping center space and office and commercial buildings.

(D) Net income plus depreciation and deferred income taxes.

Note — Unless otherwise stated, data have been restated to give retroactive effect to mergers accounted for on a pooling of interests basis (see Note A of Notes to Financial Statements). Fiscal years end on approximately January 31 of the year following.

DEPARTMENT STORES

Hudson's — Joseph L. Hudson, Jr., President
Michigan and Ohio

Dayton's — Carl R. Erickson, Chairman
Roy C. Eberhard, President
Minnesota

Diamond's — W. Wallace Barrett, President
Arizona, Nevada and Oklahoma

Lipman's — Edward F. Finn, President
Oregon

John A. Brown — James W. Sherburne, President
Oklahoma

LOW MARGIN STORES

Target — William A. Hodder, President
Colorado, Iowa, Minnesota, Missouri, Oklahoma, Texas and Wisconsin

Lechmere — Maurice M. Cohen, Chairman
Norman D. Cohen, President
Massachusetts

SPECIALTY STORES

Dayton Hudson Booksellers — Bruce G. Allbright, Jr., President
B. Dalton, Bookseller
Arizona, California, Georgia, Illinois, Indiana, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nevada, Ohio, Oklahoma, Texas and Wisconsin
Pickwick Bookshops
California

Dayton Hudson Jewelers — Edwin G. Roberts, President
J. E. Caldwell
Delaware, New Jersey and Pennsylvania
J. B. Hudson
Minnesota and Nebraska
J. Jessop & Sons
California
C. D. Peacock
Illinois
Shreve's
California
Charles W. Warren
Michigan and Ohio

Team Central — Edgar C. Moreland, President
Alaska, Colorado, Illinois, Iowa, Kansas, Michigan, Minnesota, Missouri, Montana, Nebraska, North Dakota, South Dakota and Wisconsin

REAL ESTATE

Dayton Hudson Properties — Robert J. Crabb, President
Michigan and Minnesota

Dayton Hudson Corporation

Directors

William A. Andres, Executive Vice President
Maurice M. Cohen, Chairman, Lechmere
Bruce B. Dayton, Chairman of the Board
Donald C. Dayton, Retired Chairman of the Board
Douglas J. Dayton, Chairman, Minnesota Businessmen in Government Program
K. N. Dayton, President
Wallace C. Dayton, Conservationist
William A. Hodder, Senior Vice President
Joseph L. Hudson, Jr., Vice Chairman of the Board
Stephen F. Keating, President, Honeywell Inc.
Robert J. Keith, Chairman of the Board, The Pillsbury Company
David M. Lilly, Chairman of the Board, The Toro Company
Philip H. Nason, President, The First National Bank of St. Paul
William E. Roberts, Retired Chairman, Lipman's
Paul N. Ylvisaker, Professor, Princeton University

Officers

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K. N. Dayton, President
Joseph L. Hudson, Jr., Vice Chairman of the Board
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Robert J. Crabb, Senior Vice President
Carl R. Erickson, Senior Vice President
William A. Hodder, Senior Vice President
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Gerald R. Dirks, Vice President
Glenn E. Johnson, Vice President
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Dickinson G. Wiltz, Vice President
Reid Johnson, Treasurer
J. R. A. Boline, Assistant Treasurer
Willard C. Shull III, Assistant Treasurer
William E. Harder, Assistant Secretary

Corporate Offices
777 Nicollet Mall, Minneapolis, Minnesota 55402

Transfer Agents
Northwestern National Bank of Minneapolis
First National City Bank, New York City

Registrars
First National Bank of Minneapolis
The Chase Manhattan Bank, N.A., New York City

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